

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Charter Township of Genesee	County Genesee
Fiscal Year End 12/31/2006	Opinion Date 4/05/2007	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

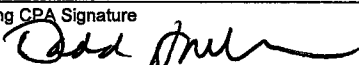
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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☒ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Plante and Moran, PLLC		Telephone Number 810-767-5350		
Street Address 111 East Court Street, Suite 1A		City Flint	State MI	Zip 48502
Authorizing CPA Signature 		Printed Name Tadd A. Harburn		License Number 1101014134

Financial Report

**Charter Township of Genesee
Genesee County, Michigan**

December 31, 2006

Charter Township of Genesee
List of Elected, Civil Service, and Appointed Officials

Scott Streeter	Supervisor
Charles Marshall	Clerk
Donald Becker	Treasurer
Richard Burrus	Trustee
Helen Oliver	Trustee
Christine White	Trustee
Ronald Shamel	Trustee

**Charter Township of Genesee
Financial Report
Year Ended December 31, 2006**

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**Charter Township of Genesee
Financial Report
Year Ended December 31, 2006**

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Independent Auditor's Report

Members of the Board
Charter Township of Genesee, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Genesee, (Township) as of and for the year ended December 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Genesee, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the General Fund budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Township's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2007 on our consideration of the Charter Township of Genesee's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

April 5, 2007

Management's Discussion and Analysis

Charter Township of Genesee Management's Discussion and Analysis

As management of the Charter Township of Genesee, we offer readers of the Charter Township of Genesee's financial statements this narrative overview and analysis of the financial activities of the Charter Township of Genesee for the fiscal year ended December 31, 2006.

Financial Highlights

- The assets of the Charter Township of Genesee exceeded its liabilities at the close of the most recent fiscal year by \$35,225,317 (*net assets*). Of this amount, \$7,068,006 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$34,500. This increase is attributable to the Business-type activities of the government's operations

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19 through 36 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Charter Township of Genesee's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 37 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 37 through 40 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Charter Township of Genesee, assets exceeded liabilities by \$35,225,317 at the close of the most recent fiscal year.

By far the largest portion of the Charter Township of Genesee's net assets (78 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The Charter Township of Genesee uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Charter Township of Genesee's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Charter Township of Genesee's Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$2,404,012	\$6,008,535	\$ 8,518,782	\$ 8,901,379	\$10,922,794	\$14,909,914
Capital assets	<u>5,526,129</u>	<u>2,613,129</u>	<u>24,379,925</u>	<u>24,275,840</u>	<u>29,906,054</u>	<u>26,888,969</u>
Total assets	<u>7,930,141</u>	<u>8,621,664</u>	<u>32,898,707</u>	<u>33,177,219</u>	<u>40,828,848</u>	<u>41,798,883</u>
Long-term liabilities						
outstanding	385,186	548,609	1,517,311	1,979,687	1,902,497	2,528,296
Other liabilities	<u>2,873,310</u>	<u>3,013,570</u>	<u>827,724</u>	<u>1,066,200</u>	<u>3,701,034</u>	<u>4,079,770</u>
Total liabilities	<u>3,258,496</u>	<u>3,562,179</u>	<u>2,345,035</u>	<u>3,045,887</u>	<u>5,603,531</u>	<u>6,608,066</u>
Invested in capital assets, net of related debt	5,055,847	2,033,024	22,400,238	21,828,777	27,456,085	23,861,801
Restricted	33,808	9,420	667,418	1,046,585	701,226	1,056,005
Unrestricted	<u>(418,010)</u>	<u>3,017,041</u>	<u>7,486,016</u>	<u>7,255,970</u>	<u>7,068,006</u>	<u>10,273,011</u>
Total net assets	<u>\$4,671,645</u>	<u>\$5,059,485</u>	<u>\$30,553,672</u>	<u>\$30,131,332</u>	<u>\$35,225,317</u>	<u>\$35,190,817</u>

An additional portion of the Charter Township of Genesee's net assets (1.99 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$7,068,006) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Charter Township of Genesee is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's net assets increased by \$34,500 during the current fiscal year. This increase represents the Business-type activities of the government's operations.

Governmental-type activities. Governmental activities decreased the Charter Township of Genesee's net assets by \$387,840. Key elements of these changes are as follows:

Charter Township of Genesee's Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:						
Program revenues:						
Charges for services	\$1,699,624	\$1,637,604	\$ 3,110,365	\$ 3,364,167	\$ 4,809,989	\$ 5,001,771
Operating grants and contributions	709,094	503,219	-	-	709,094	503,219
Capital grants and contributions	-	181,535	125,800	67,950	125,800	249,485
General revenues:						
Property taxes	1,839,271	1,767,798	124,809	140,212	1,964,080	1,908,010
State shared revenue	2,204,914	2,225,617	-	-	2,204,914	2,225,617
Investment earnings	130,616	126,643	340,246	302,125	470,862	428,768
Franchise fees	205,530	201,474	-	-	205,530	201,474
Gain on sale of fixed assets	-	49,770	-	-	-	49,770
Total revenues	<u>6,789,049</u>	<u>6,693,660</u>	<u>3,701,220</u>	<u>3,874,454</u>	<u>10,490,269</u>	<u>10,568,114</u>
Expenses:						
Legislative	331,698	150,097	-	-	331,698	150,097
General government	1,294,034	1,775,337	-	-	1,294,034	1,775,337
Public safety	4,211,029	3,636,269	-	-	4,211,029	3,636,269
Highways and streets	211,084	181,372	-	-	211,084	181,372
Sanitation	981,948	946,946	-	-	981,948	946,946
Recreation and culture	112,157	123,249	-	-	112,157	123,249
Economic development	6,496	6,146	-	-	6,496	6,146
Interest on long-term debt	28,443	33,783	-	-	28,443	33,783
Water	-	-	1,388,017	1,554,248	1,388,017	1,554,248
Sewer	-	-	1,890,863	1,908,635	1,890,863	1,908,635
Total expenses	<u>7,176,889</u>	<u>6,853,199</u>	<u>3,278,880</u>	<u>3,462,883</u>	<u>10,455,769</u>	<u>10,316,082</u>
Increase/(decrease) in net assets	(387,840)	(159,539)	422,340	411,571	34,500	252,032
Net assets – Beginning of year	<u>5,059,485</u>	<u>5,219,024</u>	<u>30,131,332</u>	<u>29,719,761</u>	<u>35,190,817</u>	<u>34,938,785</u>
Net assets – End of year	<u>\$4,671,645</u>	<u>\$5,059,485</u>	<u>\$30,553,672</u>	<u>\$30,131,332</u>	<u>\$35,225,317</u>	<u>\$35,190,817</u>

- Property taxes overall increased by \$56,070 (3 percent) during the year. Most of this increase is the product of an increase in the general operating levy within the Governmental type activities.
- State-shared revenues (sales taxes) decreased \$20,703 or 1%.

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

Business-type activities. Business-type activities increased the Charter Township of Genesee's net assets by \$422,340. Key elements of this increase are consistent with prior years.

Financial Analysis of the Government's Funds

As noted earlier, the Charter Township of Genesee uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Charter Township of Genesee's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Charter Township of Genesee's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Charter Township of Genesee's governmental funds reported combined ending fund deficit of (\$303,850), a decrease of \$3,408,638 in comparison with the prior year. Approximately 99.9% of this total decrease (\$3,406,379) constitutes *unreserved fund balance*, which was used to finance the construction of the new governmental complex. A portion of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to liquidate contracts of the prior period, \$153,240.

The general fund is the chief operating fund of the Charter Township of Genesee. At the end of the current fiscal year, unreserved fund balance of the general fund was a deficit (\$503,288), while total fund balance was a deficit (\$370,719). The majority of this deficit was a direct result of the long term advances from other funds used to finance the current year's construction projects.

The fund balance of the Charter Township of Genesee's general fund decreased by \$2,979,432 during the current fiscal year. Key factors in this decrease are as follows:

- An increase in expenditures in public safety in the amount of \$435,038.
- Intergovernmental – State revenues of the general fund decreased as well, by \$18,350, primarily as a result of a decrease in state shared revenues.
- Advances to other funds increased by \$2,812,849 representing construction costs of the new governmental complex.

Proprietary funds. The Charter Township of Genesee's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Funds at the end of the year amounted to \$7,486,016. The total growth in net assets for both funds was \$283,503 and \$138,837, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Charter Township of Genesee's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget for the General Fund can be briefly summarized as follows:

- \$756,150 in increase to the Federal intergovernmental - Grant revenue activities.
- \$62,000 in increase to the Interest revenue activities.
- \$995,150 in increase to the Police Public Safety activities.

Capital Asset and Debt Administration

Capital assets. The Charter Township of Genesee's investment in capital assets for its governmental and business type activities as of December 31, 2006, amounts to \$29,906,054 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment. The total net increase in the Charter Township of Genesee's investment in capital assets for the current fiscal year was \$2,913,000 for governmental activities and \$104,085 for business-type activities.

Detailed information on the Charter Township of Genesee's capital assets can be found in note III .C on pages 24 through 26 of this report.

Long-term debt. At the end of the current fiscal year, the Charter Township of Genesee had total long-term debt outstanding of \$1,952,722. Of this amount, \$435,411 will be paid from governmental activities and \$1,517,311 will be paid from Sewer and Water resources.

Additional information on the Charter Township of Genesee's long-term debt can be found in note III .E on pages 27 through 29 of this report.

Economic Factors and Next Year's Budgets and Rates

- The State's economy has been in a downward trend for the past few years. As a result, the State legislature has significantly cut state shared resources to units of government as a strategy to help reduce the State's budget deficit. The negative impact on the future state shared revenues is expected to continue in 2007.
- Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing the Charter Township of Genesee's budget for the 2006 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund decreased to a deficit (\$523,959).

Requests for Information

This financial report is designed to provide a general overview of the Charter Township of Genesee's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Clerk, Charter Township of Genesee, 7244 N. Genesee Road, P.O. Box 215, Genesee, MI, 48437.

Basic Financial Statements

Government-wide Financial Statements

**Charter Township of Genesee
Statement of Net Assets
December 31, 2006**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Corporation
Assets				
Cash and equivalents	\$ 1,854,758	\$ 2,478,119	\$ 4,332,877	\$ -
Investments	422,038	1,658,288	2,080,326	-
Receivables	2,134,205	1,542,083	3,676,288	-
Due from primary government	-	-	-	257
Due from other governments	557,388	-	557,388	-
Internal balances	(2,683,233)	2,683,233	-	-
Prepaid items	118,856	5,928	124,784	-
Other assets	-	18,307	18,307	-
Restricted cash	-	132,824	132,824	-
Capital assets (not depreciated)	2,931,761	7,000	2,938,761	-
Capital assets (net of accumulated depreciation)	2,594,368	24,372,925	26,967,293	-
Total assets	7,930,141	32,898,707	40,828,848	257
Liabilities				
Accounts payable	301,127	266,389	567,516	-
Accrued liabilities	157,673	59,667	217,340	-
Retainer payable	220,326	-	220,326	-
Deposits	-	3,250	3,250	-
Due to component units	257	-	257	-
Due to other governments	53,738	5,000	58,738	-
Deferred revenue	1,974,741	31,042	2,005,783	-
Noncurrent liabilities:				
Due within one year	165,448	462,376	627,824	-
Due in more than one year	385,186	1,517,311	1,902,497	-
Total liabilities	3,258,496	2,345,035	5,603,531	-
Net Assets				
Invested in capital assets, net of related debt	5,055,847	22,400,238	27,456,085	-
Restricted for:				
Drug forfeiture	20,095	-	20,095	-
Debt service	-	667,418	667,418	-
Other purposes	13,713	-	13,713	-
Unrestricted (deficit)	(418,010)	7,486,016	7,068,006	257
Total net assets	\$ 4,671,645	\$ 30,553,672	\$ 35,225,317	\$ 257

See notes to financial statements.

**Charter Township of Genesee
Statement of Activities
Year Ended December 31, 2006**

Functions\Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
Governmental activities:			
Legislative	\$ 331,698	\$ -	\$ -
General government	1,294,034	359,043	-
Public safety	4,211,029	216,376	619,738
Highways and streets	211,084	137,253	-
Sanitation	981,948	986,952	-
Recreation and culture	112,157	-	89,356
Economic development	6,496	-	-
Interest on long-term debt	28,443	-	-
Total governmental activities	7,176,889	1,699,624	709,094
Business-type activities:			
Sewer	1,890,863	1,621,724	-
Water	1,388,017	1,488,641	-
Total business-type activities	3,278,880	3,110,365	-
Total primary government	\$ 10,455,769	\$ 4,809,989	\$ 709,094
Component Units:			
Economic Development Corporation	\$ -	\$ -	\$ -
Total component units	\$ - 0 -	\$ - 0 -	\$ - 0 -
General revenues:			
Property taxes			
State shared revenue			
Unrestricted investment earnings			
Franchise fees			
Total general revenues			
Change in net assets			
Net Assets - Beginning			
Net assets - Ending			

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets				
Capital Grants and Contributions	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Corporation
\$ -	\$ (331,698)	\$ -	\$ (331,698)	\$ -
-	(934,991)	-	(934,991)	-
-	(3,374,915)	-	(3,374,915)	-
-	(73,831)	-	(73,831)	-
-	5,004	-	5,004	-
-	(22,801)	-	(22,801)	-
-	(6,496)	-	(6,496)	-
-	(28,443)	-	(28,443)	-
-	(4,768,171)	-	(4,768,171)	-
55,350	-	(213,789)	(213,789)	-
70,450	-	171,074	171,074	-
125,800	-	(42,715)	(42,715)	-
\$ 125,800	(4,768,171)	(42,715)	(4,810,886)	-
\$ -	-	-	-	-
\$ - 0 -	-	-	-	-
	1,839,271	124,809	1,964,080	-
	2,204,914	-	2,204,914	-
	130,616	340,246	470,862	-
	205,530	-	205,530	-
	4,380,331	465,055	4,845,386	-
	(387,840)	422,340	34,500	-
	5,059,485	30,131,332	35,190,817	257
	\$ 4,671,645	\$ 30,553,672	\$ 35,225,317	\$ 257

See notes to financial statements.

Fund Financial Statements

**Charter Township of Genesee
Balance Sheet
Governmental Funds
December 31, 2006**

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,772,551	\$ 766	\$ 81,441	\$ 1,854,758
Investments	105,264	316,774	-	422,038
Receivables:				
Property tax receivable	1,102,676	-	-	1,102,676
Customer sales on account	1,031,529	-	-	1,031,529
Due from other funds	216,928	71	-	216,999
Due from other governments	526,160	-	31,228	557,388
Prepaid items	118,856	-	-	118,856
Total assets	\$ 4,873,964	\$ 317,611	\$ 112,669	\$ 5,304,244
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	\$ 233,273	\$ 61,649	\$ 6,205	\$ 301,127
Accrued liabilities	157,673	-	-	157,673
Retainer payable	-	220,326	-	220,326
Due to other funds	71	-	75,231	75,302
Due to other governments	53,738	-	-	53,738
Due to component units	257	-	-	257
Advances from other funds	2,824,930	-	-	2,824,930
Deferred revenue	1,974,741	-	-	1,974,741
Total liabilities	5,244,683	281,975	81,436	5,608,094
Fund balances:				
Reserved for:				
Prepaid items	118,856	-	-	118,856
Right-of-way	13,713	-	-	13,713
Unreserved reported in				
General fund	(503,288)	-	-	(503,288)
Special revenue funds	-	-	20,095	20,095
Capital projects fund	-	35,636	-	35,636
Debt service fund	-	-	11,138	11,138
Total fund balances (deficit)	(370,719)	35,636	31,233	(303,850)
Total liabilities and fund balances	\$ 4,873,964	\$ 317,611	\$ 112,669	\$ 5,304,244

See notes to financial statements.

**Charter Township of Genesee
Reconciliation of the Balance Sheet to the Statement of Net Assets
Year Ended December 31, 2006**

Fund balances reported on governmental funds	\$ (303,850)
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	5,526,129
Long term liabilities, including long term notes payable, are not due and payable in the current period, and therefore, are not reported in the funds.	(470,282)
Employee compensated absences are payable over a long period of years, and do not represent a claim on current financial resources; therefore they are not fund liabilities.	<u>(80,352)</u>
Net assets - governmental activities	<u><u>\$ 4,671,645</u></u>

See notes to financial statements.

Charter Township of Genesee
Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2006

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenue				
Taxes	\$ 1,839,271	\$ -	\$ -	\$ 1,839,271
Licenses and permits	64,896	-	-	64,896
Intergovernmental:				
Federal	496,677	-	89,356	586,033
State	2,303,669	-	-	2,303,669
Local	133,629	-	-	133,629
Charges for services	1,679,901	-	-	1,679,901
Forfeitures	-	-	24,306	24,306
Interest	118,782	9,571	2,263	130,616
Miscellaneous	11,738	-	-	11,738
Total revenue	6,648,563	9,571	115,925	6,774,059
Expenditures				
Current:				
General government	866,169	-	-	866,169
Public safety	4,057,242	-	1,550	4,058,792
Highways, streets, and bridges	197,383	-	-	197,383
Sanitation	981,948	-	-	981,948
Recreation and culture	-	-	89,356	89,356
Other functions	727,394	-	-	727,394
Capital outlay	-	3,138,380	-	3,138,380
Debt service:				
Principal	-	106,792	3,030	109,822
Interest and fiscal charges	-	27,908	535	28,443
Total expenditures	6,830,136	3,273,080	94,471	10,197,687
Excess of Revenue Over (Under) Expenditures	(181,573)	(3,263,509)	21,454	(3,423,628)
Other Financing Sources (Uses)				
Transfers out	(2,812,849)	-	(12,081)	(2,824,930)
Transfers in	-	2,824,930	-	2,824,930
Sale of property and equipment	14,990	-	-	14,990
Total other financing sources (uses)	(2,797,859)	2,824,930	(12,081)	14,990
Net change in fund balances	(2,979,432)	(438,579)	9,373	(3,408,638)
Fund balance - Beginning of year	2,608,713	474,215	21,860	3,104,788
Fund balance - End of year (deficit)	\$ (370,719)	\$ 35,636	\$ 31,233	\$ (303,850)

See notes to financial statements.

**Charter Township of Genesee
Reconciliation of the Statement of Revenue,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
Year Ended December 31, 2006**

Net Change in fund balances - total governmental funds	\$ (3,408,638)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities these costs are allocated over their estimated useful lives as depreciation expense:

Capital outlay	3,233,735
Depreciation expense	(320,735)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	109,823
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Increase in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements until they come due for payment.	(2,025)
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Change in net assets of governmental activities	<u><u>\$ (387,840)</u></u>
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Charter Township of Genesee
Statement of Net Assets
Proprietary Funds
December 31, 2006

	Enterprise Funds		
	Water	Sewer	Totals
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,060,543	\$ 1,417,576	\$ 2,478,119
Investments	355,826	1,302,462	1,658,288
Receivables:			
Property tax receivable	-	138,909	138,909
Customer sales on account	525,918	579,920	1,105,838
Accrued interest receivable	16,523	26,158	42,681
Current portion of special assessments	2,786	-	2,786
Current portion of tap-in receivables	44,599	16,392	60,991
Due from other funds	666,593	-	666,593
Prepaid items	2,964	2,964	5,928
Total current assets	2,675,752	3,484,381	6,160,133
Noncurrent assets:			
Restricted cash - revenue bond reserve	132,824	-	132,824
Advances to other funds	1,055,010	2,614,801	3,669,811
Special assessments receivable	13,927	-	13,927
Tap-in contracts receivable	126,009	50,942	176,951
Capital assets	8,225,926	16,153,999	24,379,925
Bond issuance costs	-	18,307	18,307
Total noncurrent assets	9,553,696	18,838,049	28,391,745
Total assets	\$ 12,229,448	\$ 22,322,430	\$ 34,551,878

See notes to financial statements.

	Enterprise Funds		
	Water	Sewer	Totals
Liabilities			
Current liabilities:			
Accounts payable	\$ 1,989	\$ 264,400	\$ 266,389
Accrued liabilities	51,226	8,441	59,667
Due to other funds	97,502	710,788	808,290
Due to other governments	-	5,000	5,000
Deferred revenue	-	31,042	31,042
Current portion of long-term debt	75,000	387,376	462,376
Total current liabilities	225,717	1,407,047	1,632,764
Noncurrent liabilities:			
Deposits payable	3,250	-	3,250
Advances from other funds	844,881	-	844,881
Long-term debt - Net of current portion	1,135,000	382,311	1,517,311
Total long-term liabilities	1,983,131	382,311	2,365,442
Net Assets			
Investment in capital assets - Net of related debt	7,015,926	15,384,312	22,400,238
Restricted for debt service	-	667,418	667,418
Unrestricted	3,004,674	4,481,342	7,486,016
Total net assets	<u>\$ 10,020,600</u>	<u>\$ 20,533,072</u>	<u>\$ 30,553,672</u>

Charter Township of Genesee
Statement of Revenue, Expenses, and Changes in Net Assets
Proprietary Funds
Year Ended December 31, 2006

	Enterprise Funds		
	Water	Sewer	Totals
Operating Revenue			
Usage fees	\$ 1,393,622	\$ 1,607,565	\$ 3,001,187
Meter fees	30,238	-	30,238
Hydrant fees	62,157	-	62,157
Other miscellaneous revenue	2,624	14,159	16,783
Total operating revenue	1,488,641	1,621,724	3,110,365
Operating Expenses			
County usage	824,880	1,107,955	1,932,835
Depreciation	103,570	288,960	392,530
Amortization of bond issuance	-	13,731	13,731
General administration	322,974	207,093	530,067
Repairs and maintenance	30,360	234,015	264,375
Total operating expenses	1,281,784	1,851,754	3,133,538
Operating income (loss)	206,857	(230,030)	(23,173)
Nonoperating Revenue (Expenses)			
Interest income	112,429	227,817	340,246
Interest expense	(106,233)	(39,109)	(145,342)
Property taxes	-	124,809	124,809
Total non-operating revenue	6,196	313,517	319,713
Income before contributions	213,053	83,487	296,540
Capital contributions - tap fees	70,450	55,350	125,800
Change in net assets	283,503	138,837	422,340
Net Assets - Beginning of year	9,737,097	20,394,235	30,131,332
Net Assets - End of year	\$ 10,020,600	\$ 20,533,072	\$ 30,553,672

See notes to financial statements.

**Charter Township of Genesee
Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2006**

	Enterprise Funds		
	Water	Sewer	Totals
Cash Flows from Operating Activities:			
Receipts from customers	\$ 1,507,069	\$ 1,669,301	\$ 3,176,370
Payments to employees	(106,526)	(103,299)	(209,825)
Payments to suppliers	(1,165,485)	(1,427,222)	(2,592,707)
Net cash provided by operating activities	235,058	138,780	373,838
Cash Flows from Noncapital Financing Activities:			
Loans made to other funds	(1,055,010)	(1,769,920)	(2,824,930)
Cash Flows from Capital and Related Financing Activities:			
Proceeds from property tax levy (restricted for debt service)	-	56,456	56,456
Special assessment collections	76,086	42,422	118,508
Payments on long-term advances to (from) other funds	(51,506)	51,506	-
Principal and interest paid on capital debt	(181,233)	(435,713)	(616,946)
Purchase or construction of capital assets	(337,410)	(159,208)	(496,618)
Net cash used in capital and related financing activities	(494,063)	(444,537)	(938,600)
Cash Flows from Investing Activities:			
Purchase of investments	(144,019)	(60,983)	(205,002)
Interest received on investments	112,429	227,817	340,246
Net cash provided by (used in) investing activities	(31,590)	166,834	135,244
Net Decrease in Cash and Cash Equivalent	(1,345,605)	(1,908,843)	(3,254,448)
Cash and Cash Equivalent - Beginning of year	2,538,972	3,326,418	5,865,390
Cash and Cash Equivalents - End of year	\$ 1,193,367	\$ 1,417,575	\$ 2,610,942
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities:			
Operating income (loss)	\$ 206,857	\$ (230,030)	\$ (23,173)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	103,570	302,691	406,261
Changes in assets and liabilities:			
Receivables	32,480	42,374	74,854
Due from other funds	(14,052)	5,203	(8,849)
Prepaid other assets	2,716	2,686	5,402
Accounts payable	(2,647)	(6,096)	(8,743)
Accrued and other liabilities	(96,263)	-	(96,263)
Due to other funds	2,397	21,952	24,349
Net cash provided by operating activities:	\$ 235,058	\$ 138,780	\$ 373,838

See notes to financial statements.

**Charter Township of Genesee
Statement of Assets and Liabilities
Fiduciary Funds
December 31, 2006**

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 3,118,860
Investments	<u>29,047</u>
Total assets	<u><u>\$ 3,147,907</u></u>
 Liabilities	
Accounts payable	\$ 37,253
Due to other governments	3,081,666
Cemetery endowment deposit payable	<u>28,988</u>
Total liabilities	<u><u>\$ 3,147,907</u></u>

See notes to financial statements.

Notes to Basic Financial Statements

Charter Township of Genesee
Notes to Financial Statements
December 31, 2006

I. Summary of significant accounting policies

The accounting policies of the Charter Township of Genesee (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of Genesee.

A. Reporting entity

In accordance with the criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity, the financial statements of the Charter Township of Genesee, Michigan (primary government), contain all the Township funds, account groups, and component units that are controlled by, or dependent on, the Township's executive or legislative branches. Control by the Township was determined on the basis of appointment of governing authority with an ability of the Township to impose its will or for which a financial benefit/burden exists. Fiscal dependence on the primary government was determined by budget adoption, taxing authority, outstanding debt secured by revenues or general obligation of the Township, obligation of the Township to finance any deficits that may occur, receipt of significant subsidies from the Township, disposition of surplus funds, and scope of public service.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended component units:

The Genesee Township Building Authority is governed by a Board that is appointed by the Township Board. Although it is legally separate from the Township, it is reported as if it were part of the primary government because its sole purpose is to finance and construct the Township's public buildings. All of the Building Authority's debt has been defeased and the Authority is currently inactive.

Discretely presented component units:

The Economic Development Corporation is reported within the component unit column in the combined financial statements. It is reported in a separate column to emphasize that it is legally separate from the Township. The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving or expanding within the Township so as to provide needed services and facilities of such enterprises. The Corporation's chief activity has been to develop and sell lots in the Dort-Carpenter Industrial Park. In fiscal year 2004, the EDC donated the Dort-Carpenter Industrial Park to the Township. Currently, the EDC is available to advise the Township on tax abatements and serve as a mechanism for future economic development. The Corporation's governing body, which consists of three individuals, is selected by the Township Board. The Corporation's financial information is included in these financial statements; it does not publish separately issued financial statements.

Charter Township of Genesee
Notes to Financial Statements
December 31, 2006

I. Summary of significant accounting policies – (continued)

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as they are both measurable and available. Revenue is considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Charter Township of Genesee
Notes to Financial Statements
December 31, 2006

I. Summary of significant accounting policies – (continued)

C. Measurement focus, basis of accounting, and financial statement presentation – (continued)

Property taxes, income taxes, licenses, and charges for services associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund – The capital projects fund is used to account for financial resources for the construction of major capital improvements within the Township.

The government reports the following major proprietary funds:

The Water Supply and Sewer Disposal System Fund are separate funds that are maintained for the operations of the water distribution system and sewage pumping and collection system that transport the sewage to Genesee County's Treatment Plant.

Additionally, the government reports the following fund types:

Agency Funds - Agency Funds are used to account for assets held by the Township in trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency Funds primarily account for the collection of property taxes for other units of government.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources as they are needed.

Proprietary funds distinguish *operating* revenue and expenses from *nonoperating* items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Charter Township of Genesee
Notes to Financial Statements
December 31, 2006

I. Summary of significant accounting policies – (continued)

D. Assets, liabilities, and net assets or equity

1. Deposits

The Township considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Investments are stated at fair value.

2. Receivables and payables

In general, outstanding balance between funds are reported as “due to/from other funds”, activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as “advances to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Advances to other funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade, notes, contracts and property tax receivables are shown net of an allowance for uncollectibles.

3. Prepaid items

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets

The revenue bonds of the Water Fund require amounts to be set aside for bond reserve. The amount has been classified as restricted cash.

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two (2) years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Charter Township of Genesee
Notes to Financial Statements
December 31, 2006

I. Summary of significant accounting policies – (continued)

D. Assets, liabilities, and net assets or equity – (continued)

5. Capital assets – (continued)

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30-39
Building improvements	30
Water and sewer distribution systems	50-100
Vehicles	5-7
Office equipment	5-10
Computer equipment	7
Roads (shared road improvements)	10-20
Pump stations	15

6. Property tax

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2005 tax is levied and collectible on December 1, 2005, and is recognized as revenue in the year ended December 31, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2006 taxable valuation of the Township totaled \$1,956,985, on which taxes levied consisted of 4.7638 mills for operating purposes. A total of .35 mills were being levied for long-term debt retirement in the Sewer Fund which expires November 2008. This resulted in current tax revenue of \$1,832,176 for operating and \$124,809 for Sewer Fund. These amounts are recognized in the respective General and Proprietary Fund financial statements as tax revenue.

7. Compensated absences (vacation)

It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Township does not have a policy to pay any amounts when employees separate from service with the Township. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Charter Township of Genesee
Notes to Financial Statements
December 31, 2006

I. Summary of significant accounting policies – (continued)

D. Assets, liabilities, and net assets or equity – (continued)

8. Long-term obligations

In the government-wide financial statements, and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

9. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

II. Stewardship, compliance, and accountability

A. Budgetary information

Budget appropriations lapse at year end, except for certain projects which are appropriated on a project length basis.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to January 1, a proposed operating budget for the fiscal year commencing January 1 is presented. The operating budget includes proposed expenditures and the means of financing them, for the General Fund, and the Community Development Special Revenue Fund.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to January 1, the budget for the General Fund is legally enacted on an activity basis through passage of a resolution and in accordance with Public Act 621 of the State of Michigan.
4. Formal budgetary integration is employed as a management control device during the year for each budgeted activity. The budgets are adopted on a basis consistent with generally accepted accounting principles.

**Charter Township of Genesee
Notes to Financial Statements
December 31, 2006**

II. Stewardship, compliance, and accountability – (continued)

A. Budgetary information – (continued)

5. Budget appropriations lapse at year end except for approved contracts which are appropriated on a contract (grant) length basis. Encumbrances are not included as expenditures at year end. The amount of encumbrances outstanding at December 31, 2006, is not known.
6. Budgeted amounts are reported on the financial statements at the final amended budget amounts (or original amounts if not amended) by the Township Board.
7. No budget was adopted for the Drug Forfeiture Special Revenue Fund.

B. Fund Deficit

As of December 31, 2006, the General Fund has an unreserved fund balance deficit of \$503,288.

III. Detailed notes on all funds

A. Deposits and investments

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated twelve banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Township's deposits and investment policies are in accordance with statutory authority.

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Township had \$2,890,795 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Charter Township of Genesee
Notes to Financial Statements
December 31, 2006**

III. Detailed notes on all funds – (continued)

A. Deposits and investments – (continued)

Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name.

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
U.S gov or agency bond or note	\$ 156,990	Counterparty

Interest rate risk:

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. At year end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. gov or agency bond or note	\$ 156,990	2.7 years

Credit risk:

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Sweep accounts	\$2,983,641	Not available	
Mutual fund	\$ 64,173	Aaa	Moody's

Charter Township of Genesee
Notes to Financial Statements
December 31, 2006

III. Detailed notes on all funds – (continued)

B. Receivables

Receivables as of year end for the Township's individual major funds and the nonmajor in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Receivables:					
Taxes	\$1,102,676	\$ -	\$ -	\$138,909	\$1,241,585
Accounts	1,031,529	-	525,918	579,920	2,137,367
Intergovernmental	526,160	31,228	-	-	557,388
Interest	-	-	16,523	26,158	42,681
Other	-	-	187,321	67,334	254,655
Less allowance for uncollectibles	-	-	-	-	-
Net receivables	<u>\$2,660,365</u>	<u>\$ 31,228</u>	<u>\$729,762</u>	<u>\$812,321</u>	<u>\$4,233,676</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes	<u>\$ -0-</u>	<u>\$ 1,974,741</u>

C. Capital assets

Capital asset activity for the year ended December 31, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 486,000	\$ -	\$ -	\$ 486,000
Construction in progress	897,087	2,412,985	(864,311)	2,445,761
Total capital assets, not being depreciated	<u>1,383,087</u>	<u>2,412,985</u>	<u>(864,311)</u>	<u>2,931,761</u>
Capital assets, being depreciated:				
Buildings	1,836,627	1,463,050	(556,647)	2,743,030
Vehicles	2,206,302	29,151	(76,700)	2,158,753
Machinery and equipment	194,580	192,860	-	387,440
Road improvements	246,676	-	-	246,676
Total capital assets being depreciated	<u>4,484,185</u>	<u>1,685,061</u>	<u>(633,347)</u>	<u>5,535,899</u>

Charter Township of Genesee
Notes to Financial Statements
December 31, 2006

III. Detailed notes on all funds – (continued)

C. Capital assets – (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental activities - (continued)				
Less accumulated depreciation for:				
Buildings	(1,641,763)	(29,677)	556,647	(1,114,793)
Vehicles	(1,537,276)	(241,566)	76,700	(1,702,142)
Machinery and equipment	(59,211)	(35,791)	-	(95,002)
Road improvements	(15,893)	(13,701)	-	(29,594)
Total accumulated depreciation	(3,254,143)	(320,735)	633,347	(2,941,531)
Total capital assets, being depreciated, net	1,230,042	1,364,326	-	2,594,368
Governmental activities capital assets, net	<u>\$ 2,613,129</u>	<u>\$ 3,777,311</u>	<u>\$ (864,311)</u>	<u>\$ 5,526,129</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 7,000	\$ -	\$ -	\$ 7,000
Total capital assets, not being depreciated	7,000	-	-	7,000
Capital assets, being depreciated:				
Buildings and system	33,609,575	486,973	(9,600)	34,086,948
Vehicles	61,620	-	-	61,620
Machinery and equipment	67,404	9,643	(9,574)	67,473
Total capital assets, being depreciated	33,738,599	496,616	(19,174)	34,216,041
Less accumulated depreciation for:				
Buildings and system	(9,378,985)	(379,424)	9,600	(9,748,809)
Vehicles	(37,694)	(7,290)	-	(44,984)
Machinery and equipment	(53,081)	(5,816)	9,574	(49,323)
Total accumulated depreciation	(9,469,760)	(392,530)	19,174	(9,843,116)
Total capital assets, being depreciated, net	24,268,839	104,086	-	24,372,925
Business-type activities capital assets, net	<u>\$ 24,275,839</u>	<u>\$ 104,086</u>	<u>\$ -0-</u>	<u>\$ 24,379,925</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

Current:

General government	\$ 25,005
Public safety	282,029
Highway and streets	<u>13,701</u>

Total depreciation expense – governmental activities \$320,735

**Charter Township of Genesee
Notes to Financial Statements
December 31, 2006**

III. Detailed notes on all funds – (continued)

C. Capital assets – (continued)

Business-type activities:

Water	\$103,570
Sewer	<u>288,960</u>
Total depreciation expense – Business-type activities	<u>\$392,530</u>

D. Interfund receivables, payables, and transfers

The composition of interfund balances as of December 31, 2006 is as follows:

Due to/from other funds:

Receivable <u>Fund</u>	Payable <u>Fund</u>	<u>Amount</u>
General	Storm Drain	\$ 44,003
General	Water	97,502
General	Sanitary Sewer	44,195
General	Community Development	31,228
Water	Sanitary Sewer	666,593
Capital Project	General	<u>71</u>
Total		<u>\$883,592</u>

Individual fund interfund advances receivable and payable balances at December 31, 2006, are shown below:

	<u>Advance Receivable</u>	<u>Advance Payable</u>
Enterprise Funds:		
Water Fund	\$1,055,010	\$ 844,881
Sewer Fund	2,614,801	-
General Fund	-	2,824,930
	<u>\$3,669,811</u>	<u>\$3,669,811</u>

There is a twenty year advance from the Sewer Utility Fund to the Water Utility Fund which bears interest at 5.5% per year and requires semi-annual principal and interest payments of \$50,054. Final payment is due January 1, 2018.

There is a forty year advance from the Sewer Utility Fund and the Water Utility Fund to the General fund totaling \$2,824,930 which bears interest at 3.97% per year. The advance was made for the purpose of constructing a new township hall with internal resources rather than outside financing. Final payment due in the year ended 2047.

**Charter Township of Genesee
Notes to Financial Statements
December 31, 2006**

III. Detailed notes on all funds – (continued)

D. Interfund receivables, payables, and transfers – (continued)

Due to/from primary government and component units:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Economic Development Corp.	General	<u>\$ 257</u>

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
Drug forfeiture	General Fund	\$ 12,081
General Fund	Capital Projects Fund	<u>2,824,930</u>
Total		<u>\$2,837,011</u>

The transfer from drug forfeiture represents reimbursement for police wages. The transfer from General Fund to Capital Projects represents funding for the construction of the new township hall.

E. Long-term debt

The government issues bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Contractual agreements and installment purchase agreements are also general obligations of the government. All Michigan Municipal Bond Authority debt is secured by future State of Michigan Revenue Sharing payments the Township is entitled to receive under state law. All revenue bonds are supported by the revenues generated from the operation of the respective facilities constructed. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Bond and contractual obligation activity can be summarized as follows:

	<u>General Obligation Bonds</u>	<u>Revenue Bonds and Notes</u>	<u>Accumulated Annual Pay</u>	<u>Capital Leases</u>
Governmental activities:				
Debt at January 1, 2006	\$ 9,092	\$ -	\$ 78,327	\$ 571,013
New debt	-	-	90,500	-
Principal payments made	<u>(3,030)</u>	<u>-</u>	<u>(88,475)</u>	<u>(106,793)</u>
Total governmental activities long-term debt at December 31, 2006	<u>6,062</u>	<u>-</u>	<u>80,352</u>	<u>464,220</u>

Charter Township of Genesee
Notes to Financial Statements
December 31, 2006

III. Detailed notes on all funds – (continued)

E. Long-term debt

The following is a summary of Business Type long-term debt transactions of the Township for the year ended December 31, 2006:

	<u>General Obligation Bonds</u>	<u>Revenue Bonds and Notes</u>	<u>Accumulated Annual Pay</u>	<u>Capital Leases</u>
Business type activities:				
Long-term debt payable at January 1, 2005	1,162,063	1,285,000	-	-
Principal payments made	(392,376)	(75,000)	-	-
Total business type activities long-term debt at December 31, 2006	769,687	1,210,000	-	-
Total long-term debt - all activities December 31, 2006	\$775,749	\$1,210,000	\$ 80,352	\$ 464,220

Long-term obligation activity can be summarized as follows:

	<u>Final Payment Due</u>	<u>Interest Rate or Range</u>	<u>Balance at December 31, 2005</u>	<u>Retirements During Year</u>	<u>Balance at December 31, 2006</u>	<u>Due Within One Year</u>
Governmental activities:						
Hughes Twenty Drain	4/1/2008		\$ 9,092	\$ (3,030)	\$ 6,062	\$ 3,031
2001 Fire Truck	2/5/2008	5.89	98,634	(31,015)	67,619	32,842
2002 Fire Truck	1/24/2010	Prime +1	169,590	(30,563)	139,027	32,155
2005 Fire Truck	10/27/2011	4.38	302,789	(45,215)	257,574	47,195
Accumulated annual pay			78,327	2,025	80,352	50,225
Total governmental activities			\$ 658,432	\$(107,798)	\$550,634	\$165,448
Business-type activities:						
Enterprise funds:						
Water Revenue Bond						
Series 1998	3/1/2018	4.40-6.40	\$1,285,000	\$ (75,000)	\$1,210,000	\$ 75,000
Series C-1998 Refunding	4/1/2008	3.70-4.55	900,000	(305,000)	595,000	300,000
Sanitary System No. 2	4/1/2008		262,063	(87,376)	174,687	87,376
Total business-type activities			\$2,447,063	\$(467,376)	\$1,979,687	\$462,376

**Charter Township of Genesee
Notes to Financial Statements
December 31, 2006**

III. Detailed notes on all funds – (continued)

E. Long-term debt – (continued)

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End December 31,</u>	<u>Governmental Activities</u>		<u>Business Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	115,223	22,815	462,376	82,143
2008	120,902	16,933	462,311	61,735
2009	87,013	10,862	80,000	49,576
2010	91,121	6,756	85,000	45,718
2011-2015	56,023	2,454	510,000	160,528
2016-2018	-	-	380,000	29,250
Total	<u>\$470,282</u>	<u>\$ 59,820</u>	<u>\$1,979,687</u>	<u>\$428,950</u>

Act 359, Public Acts of State 1947, as amended, provides that net indebtedness of townships cannot exceed 10% of the assessed real and personal property in the Township. As of December 31, 2006, the Charter Township of Genesee had not incurred any indebtedness which would be limited under Act 359. The Township's existing general long-term debt obligation contracts are specifically exempt from consideration in the 10% limit computation.

IV. Other information

A. Retirement plans and other post-employment benefits

1. Defined benefit pension plan

Plan description:

The Township has elected to participate in the Michigan Municipal Employees Retirement System (MERS) which is an agent multiple-employer public employee retirement system (PERS) that is administered by the State of Michigan. The MERS was organized pursuant to Act No. 427, Public Acts of 1984, as amended, and the Constitution of the State of Michigan. The Township has no fiduciary responsibility for the plan. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system as a whole. The system provides retirement benefits, as well as death and disability benefits. Service retirement benefits vest after 10 years of service or after age 60 is attained; payment is based as follows:

- For police officers, 2% of the three-year final average compensation multiplied by the credited years of service

**Charter Township of Genesee
Notes to Financial Statements
December 31, 2006**

IV. Other information – (continued)

A. Retirement plans and other post-employment benefits – (continued)

1. Defined benefit pension plan – (continued)

Plan description: – (continued)

- For elected officials, 2.5% of the five-year final average compensation (FAC) multiplied by the credited years of service, with a maximum benefit of 80% of FAC
- For general employees, 2.25% of the five-year final average compensation (FAC) multiplied by the credited years of service, with a maximum benefit of 80% of FAC

Deferred retirement benefits vest after 15 years of service, but are not paid until age 55. The obligation to contribute to and maintain the system for these employees was established by Township board resolution and requires no contribution from the employees.

Membership in the plan at December 31, 2005, the date of the latest actuarial valuation, is comprised of 54 active members, 2 inactive vested members, and 24 retirees and beneficiaries.

Funding policy:

The plan provides that the employer contribute amounts necessary to fund the actuarially determined benefits. The Township makes employer contributions in accordance with funding requirements determined by MERS' actuary. Benefit provisions and contribution obligations have been established by union contract.

Actuarial assumptions:

The significant actuarial assumptions used to compute the actuarial accrued liabilities are as follows:

Valuation date	December 31, 2005
Actuarial cost method	Entry age normal actuarial
Amortization method	Level percentage of payroll
Remaining amortization period	32 years open
Asset valuation method	5 year smoothed market
Investment rate of return	8.0%
Projected salary increases	0% - 8.40%
Includes inflation at	4.5%
Cost of living adjustments (COLA)	up to 4.5%

Charter Township of Genesee
Notes to Financial Statements
December 31, 2006

IV. Other information – (continued)

A. Retirement plans and other post-employment benefits – (continued)

1. Defined benefit pension plan – (continued)

Annual pension cost:

The Township's Annual Required Contribution (ARC) and Annual Pension Cost (APC) for the year ended December 31, 2006 was \$547,882. All employer contributions made were equal to required contributions by MERS. There was no accumulated Net Pension Obligation (NPO) at December 31, 2005. The Annual Pension Cost (APC), percentage of APC contributed, and Net pension obligation (NPO) for the years ended December 31, 2004 through December 31, 2006, are summarized as follows:

<u>Plan Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/04	12/31/03	480,744	100	-
12/31/05	12/31/04	546,055	100	-
12/31/06	12/31/05	547,882	100	-

Actuarial Valuation as of December 31:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial value of assets	\$ 4,538,294	\$ 5,153,989	\$ 5,767,133
Actuarial Accrued Liability	9,025,051	10,143,786	10,943,652
Unfunded AAL	4,486,757	4,989,797	5,176,519
Funded Ratio (over)	50%	51%	53%
Covered payroll	2,270,884	2,515,188	2,564,756
UAAL as a percentage of covered payroll	198%	198%	202%

2. Post-employment benefits

Employees who meet certain point requirements (based on age and years of service) are eligible to receive post-employment benefits upon retirement in the form of health care, vision, and dental insurance benefits. These benefits are provided by contractual agreement and are paid annually by the General Fund. The Township funds these costs on a pay-as-you-go basis. The amounts are recorded as an expenditure when the fund liability is incurred. The benefit amounts incurred totaled \$239,698 during the year ended December 31, 2006. The total number of eligible retirees amounted to 24 individuals at December 31, 2006, with 22 participating. There are no provisions for employee contributions.

Charter Township of Genesee
Notes to Financial Statements
December 31, 2006

IV. Other information – (continued)

B. Construction code revenues/expenditures

The State Construction Code Act, Michigan Public Act 245 of 1999, and rules promulgated by the Department of Treasury regarding that Act, require that a local unit's fees collected from construction code permits be accounted for in a method which shows that all of these fees were used for expenditures related to the operation of the enforcing agency. The rules indicated that if the revenues exceeded the expenditures, the fees collected must be kept in a separate fund with all the revenues and expenditures accounted for in that fund. These rules allowed for monitoring these funds in a separate activity center within the General Fund if the expenditures would normally exceed the revenues. The Township chose the latter because historically, the expenditures have exceeded revenue. The activity related to construction code activity for the year ended December 31, 2006 is as follows:

Shortfall at January 1, 2006	\$ (194,993)
Current year building permit revenue	42,995
Expenditures:	
Professional services	<u>(137,250)</u>
Cumulative shortfall at December 31, 2006	<u><u>\$ (289,248)</u></u>

C. Risk management and contingent liabilities

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for workers' compensation claims, and participates in the Michigan Municipal League risk pool for claims relating to property, general liability and medical benefit claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

D. Construction commitment

The Township has active construction projects at year end for a construction of a new fire hall and township hall. At year end, the Townships commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Fire hall	\$ 1,248,659	\$ 5,000
Township hall	\$ 2,203,258	\$ 97,773

**Charter Township of Genesee
Notes to Financial Statements
December 31, 2006**

IV. Other information – (continued)

E. Upcoming reporting changes

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pension*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2010. Management is currently assessing the impact of this new accounting standard on the Township’s financial statements for future reporting periods.

Required Supplemental Information

**Charter Township of Genesee
Budgetary Comparison Schedule
General Fund
Year Ended December 31, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Amended Budget
	Original	Amended		
Revenue				
Taxes	\$ 1,837,000	\$ 1,839,500	\$ 1,839,271	\$ (229)
Licenses and permits:				
Building permits	50,000	50,000	42,995	(7,005)
Trailer park permits	15,000	15,000	11,975	(3,025)
Other permits and licenses	13,800	13,800	9,926	(3,874)
Total licenses and permits	78,800	78,800	64,896	(13,904)
Intergovernmental - Federal:				
BYRNE grant	-	675,000	394,582	(280,418)
HIDTA grant	-	15,000	27,147	12,147
Local law enforcement block grant	-	-	9,070	9,070
FEMA	-	51,000	50,551	(449)
Miscellaneous	-	15,150	15,327	177
Total intergovernmental - federal	-	756,150	496,677	(259,473)
Intergovernmental - State:				
State shared revenue	2,246,897	2,446,897	2,204,914	(241,983)
G.A.I.N.	85,000	85,000	98,755	13,755
Total intergovernmental - state	2,331,897	2,531,897	2,303,669	(228,228)
Intergovernmental - Local:				
Narcotics grant	126,000	141,000	133,629	(7,371)
Total intergovernmental - local	126,000	141,000	133,629	(7,371)
Charges for services:				
Garbage collection	981,948	981,948	986,952	5,004
Street lights	150,000	150,000	137,253	(12,747)
Road, weed, and lights	-	44,000	53,432	9,432
Tax collection fees and penalties	164,500	164,500	178,710	14,210
District court fees	50,000	50,000	49,661	(339)
Cable TV franchise fees	200,000	200,000	205,530	5,530
Other services	53,600	68,100	68,363	263
Total charges for services	1,600,048	1,658,548	1,679,901	21,353
Interest	55,000	117,000	118,782	1,782
Sale of property and equipment	100,000	100,000	14,990	(85,010)
Miscellaneous	10,000	12,000	11,738	(262)
Total revenue	6,138,745	7,234,895	6,663,553	(571,342)

See notes to financial statements.

(continued)

**Charter Township of Genesee
Budgetary Comparison Schedule
General Fund (continued)
Year Ended December 31, 2006**

Expenditures	Budgeted Amounts		Actual Amounts	Variance with Amended Budget
	Original	Amended		
Current:				
General government:				
Township Board	137,134	137,134	132,564	4,570
Supervisor	196,380	156,380	153,843	2,537
Assessor	117,165	117,165	115,630	1,535
Elections	52,250	43,250	42,019	1,231
Audit	14,600	19,700	19,650	50
Legal	12,000	12,000	10,518	1,482
Clerk	182,929	182,929	179,075	3,854
Treasurer	118,251	118,251	111,860	6,391
Township building and equipment	8,000	10,000	9,245	755
Vehicles	25,000	47,000	45,198	1,802
Cemetery	2,640	2,640	2,340	300
Miscellaneous	16,000	52,000	44,227	7,773
Total general government	882,349	898,449	866,169	32,280
Public safety:				
Police services	2,844,452	3,839,602	3,522,844	316,758
Police reserves	50	50	49	1
Central fire department	167,271	228,271	222,052	6,219
Fire department #2	146,827	146,827	146,497	330
Mt. Morris fire contract	28,000	31,000	28,550	2,450
Building department	133,196	138,196	137,250	946
Total public safety	3,319,796	4,383,946	4,057,242	326,704
Highways, streets, and bridges	187,600	193,600	197,383	(3,783)
Sanitation	982,000	982,000	981,948	52
Other functions:				
Library	23,150	23,150	22,772	378
Planning commission	2,000	2,000	1,765	235
Appeals board	850	1,100	1,070	30
Insurance	27,200	4,200	4,115	85
Drains at large	55,600	55,600	55,563	37
Township properties	20,000	20,000	18,007	1,993
Economic development	15,200	14,200	13,696	504
Fringe benefits	623,000	656,650	610,406	46,244
Total other services	767,000	776,900	727,394	49,506
Total expenditures	6,138,745	7,234,895	6,830,136	404,759
Deficiency of revenue over expenditures	-	-	(166,583)	(166,583)

See notes to financial statements.

(continued)

**Charter Township of Genesee
Budgetary Comparison Schedule
General Fund (continued)
Year Ended December 31, 2006**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Amended</u>	<u>Amounts</u>	<u>Amended</u>
				<u>Budget</u>
Expenditures - (continued)				
Current: - (continued)				
Other financing uses:				
Transfers out	-	-	2,812,849	(2,812,849)
Net change in fund balance	-	-	(2,979,432)	(2,979,432)
Fund balance - Beginning of year	2,608,713	2,608,713	2,608,713	-
Fund balance - End of year (deficit)	\$ 2,608,713	\$ 2,608,713	\$ (370,719)	\$ (2,979,432)

See notes to financial statements.

Other Supplemental Information

**Charter Township of Genesee
Nonmajor Governmental Funds
Summary Descriptions
December 31, 2006**

Special Revenue Fund

The Community Development Fund is used to account for activities relating to Community Development federal projects.

The Drug Forfeiture Fund is used to account for activities relating to funds awarded to the Township Drug Forfeiture processing. These funds must be used for community efforts to fight drug trafficking.

Debt Service Funds

The Storm Drain Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

**Charter Township of Genesee
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2006**

	<u>Special Revenue Funds</u>		<u>Debt Service Fund</u>	
	Community Development	Drug Forfeiture	Storm Drain	Total Nonmajor Governmental Funds
Assets				
Cash and cash equivalents	\$ -	\$ 26,300	\$ 55,141	\$ 81,441
Due from other governments	31,228	-	-	31,228
Total assets	\$ 31,228	\$ 26,300	\$ 55,141	\$ 112,669
Liabilities and Fund Balance				
Liabilities				
Accounts payable	\$ -	\$ 6,205	\$ -	\$ 6,205
Due to other funds	31,228	-	44,003	75,231
Total liabilities	31,228	6,205	44,003	81,436
Fund Balances				
Unreserved	-	20,095	11,138	31,233
Total liabilities and fund balances	\$ 31,228	\$ 26,300	\$ 55,141	\$ 112,669

Charter Township of Genesee
Combining Statement of Revenue, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Fund
Year Ended December 31, 2006

	Special Revenue Funds		Debt Service Fund	
	Community Development	Drug Forfeiture	Storm Drain	Total Nonmajor Governmental Funds
Revenue				
Intergovernmental:				
Federal	\$ 89,356	\$ -	\$ -	\$ 89,356
Forfeitures	-	24,306	-	24,306
Interest	-	-	2,263	2,263
Total revenue	89,356	24,306	2,263	115,925
Expenditures				
Public safety	-	1,550	-	1,550
Recreation and culture	89,356	-	-	89,356
Debt service:				
Principal	-	-	3,030	3,030
Interest and fiscal charges	-	-	535	535
Total expenditures	89,356	1,550	3,565	94,471
Excess (deficiency) of revenue over expenditures	-	22,756	(1,302)	21,454
Other financing uses:				
Transfers out	-	(12,081)	-	(12,081)
Net change in fund balance	-	10,675	(1,302)	9,373
Fund balance - Beginning of year	-	9,420	12,440	21,860
Fund balance - End of year	\$ - 0 -	\$ 20,095	\$ 11,138	\$ 31,233

**Charter Township of Genesee
Budgetary Comparison
Nonmajor Governmental Fund
Community Development Fund
Year Ended December 31, 2006**

	Budgeted Amounts		Actual	Variance with
	Original	Amended	Amounts	Amended Budget
Revenue				
Intergovernmental:				
Federal	\$ 350,000	\$ 475,000	\$ 89,356	\$ (385,644)
Total revenue	350,000	475,000	89,356	(385,644)
Expenditures				
Recreation and culture	350,000	475,000	89,356	385,644
Total expenditures	350,000	475,000	89,356	385,644
Excess of revenue over expenditures	-	-	-	-
Fund Balance - Beginning of year	-	-	-	-
Fund Balance- End of year	\$ - 0 -	\$ - 0 -	\$ - 0 -	\$ - 0 -

**Charter Township of Genesee
Fiduciary Funds
Combining Statement of Assets and Liabilities
Year Ended December 31, 2006**

	Agency Funds		
	Current Tax Fund	General Trust and Agency	Total
Assets			
Cash and cash equivalents:	\$ 3,073,844	\$ 45,016	\$ 3,118,860
Investments:	-	29,047	29,047
	\$ 3,073,844	\$ 74,063	\$ 3,147,907
Liabilities			
Accounts payable	\$ -	\$ 37,253	\$ 37,253
Due to other governments:	3,073,844	7,822	3,081,666
Cemetery endowmen deposits payable	-	28,988	28,988
Total liabilities	\$ 3,073,844	\$ 74,063	\$ 3,147,907



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April 5, 2007

To Members of the Board
Charter Township of Genesee
Genesee County, Michigan

We have recently completed our audit of the financial statements for the Charter Township of Genesee for the year ended December 31, 2006. As a result of our audit, we offer the following observations and comments for your consideration:

Retiree Health Care Benefits

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government wide financial statements, rather than the individual fund level. The Township currently pays for premiums on a pay-as-you-go basis. The Township will need to decide how much of the total obligation to fund which may have an impact on the manner in which the benefit is budgeted.

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the government wide statement of net assets. This valuation will need to be performed by an actuary only if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. Plans with fewer than 100 participants may either hire an actuary, or perform the calculation themselves (at least every three years).

This statement is effective for the fiscal year beginning January 1, 2009. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates. The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the "interperiod equity" issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution. So - funding the contribution will actually reduce your long run cost.

Legislative Update

Revenue Sharing (Updated March 2007)

The future of the State's revenue sharing program may be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The State's budget shortfalls continue to be significant. The magnitude of the State's deficit has become even more pronounced after the State's January 2007 revenue estimating conference. According to economists, Michigan's budget is \$3 billion short of the revenue needed to cover basic services this year and next (State fiscal year's 2006/2007 and 2007/2008). The outcome of other matters will also impact revenue sharing and those matters include:

- **Future of County Participation in Statutory Revenue Sharing** In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the "revenue sharing formula" and to what extent? Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?
- **Statutory Revenue Sharing Formula Expires in 2007** Legislative action is required on this Act for appropriations to continue into 2008 and beyond.
- **Changing Michigan Business Tax Structure** The Michigan Single Business Tax has been eliminated effective December 31, 2007 which will result in the loss of \$1.9 billion from the State's budget in 2008. The Governor's fiscal year 2007/2008 budget recommends replacing a majority of the repealed Single Business Tax revenue with a new Michigan Business Tax and the enactment of a new excise tax on service providers. The new Michigan Business Tax ("MBT") is projected to generate approximately \$480 million less annually in revenue than currently generated by the Single Business Tax but the new two percent excise tax on most services is projected (if effective on June 1, 2007) to raise about \$576 million in the remainder of the fiscal 2006/2007 to help with State's budget deficit for that year and to raise \$1.47 billion in the State's fiscal year 2007/2008. The Governor's budget also includes several other tax increases and changes. Much debate will occur prior to the enactment of a final tax structure plan.

As introduced, the Governor's budget for fiscal year 2007/2008 includes a revenue sharing increase of \$27 million to be distributed using the three part formula currently contained in the revenue sharing act (taxable value per capita, population/unit type and yield equalization) with an additional \$14.5 million for public safety funding. While specific details have not been announced yet, communities would only be eligible for the increase if they can demonstrate service sharing with other local governments.

While the debate has begun, there still remain considerably more questions than answers regarding long-term funding of statutory revenue sharing. **Additionally, there are several practical short term concerns including:**

- If revenue sharing cuts are enacted for the State's fiscal year 2006/2007, then these unplanned revenue sharing payment reductions could impact the Township's year ending December 31, 2007. However, the amounts may not be known until spring or summer providing local governments with little or no time to react.

- Final decisions on revenue sharing funding levels for the State's fiscal year 2007/2008 will likely not be complete in time for local governments working on 2008 budgets.

The following chart depicts the Township's actual and estimated revenue-sharing payments over a five year period - from the State's fiscal year ended September 30, 2002 through the estimated amounts for fiscal year ending September 30, 2007:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Constitutional	\$1,581,470	\$1,608,244	\$1,590,775	\$1,628,739	\$1,656,469	\$1,653,386
Statutory	1,021,767	923,050	684,233	621,471	568,704	531,400
Total	<u>\$2,603,237</u>	<u>\$2,531,294</u>	<u>\$2,275,008</u>	<u>\$2,250,210</u>	<u>\$2,225,173</u>	<u>\$2,184,786</u>
Increase (decrease)		-\$71,943	-\$256,286	-\$24,798	-\$25,037	-\$40,387
% Change		-3%	-10%	-1%	-1%	-2%

While the significant declines in this funding source experienced in recent years appear to have slowed, it is clear that the total amount of money distributed is unlikely to increase without significant changes to the State's revenue structure. This has clearly impacted the Township's ability to finance operations and capital spending. As of now, there appears to be no long-term solution to the State's structural deficit in its General Fund, and as long as this condition exists, revenue sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

It is important to recognize that the authority for the statutory portion of revenue sharing terminates on September 30, 2007. This portion represents approximately 24 percent of the Township's total state-shared revenue recorded in its General Fund. We have not heard any significant discussion in Lansing regarding the plans for renewal at this time, but it would be appropriate to begin discussions with your state representative regarding the importance of the revenue-sharing program. The long-run health of the state-shared revenue may well be dependent on the State's current project to reform its business tax structure. We continue to urge the Township to be conservative in its estimation of state-shared revenues as this line item in the State's budget remains vulnerable. We will continue to update the Township as developments occur.

Personal Property Tax (Updated March 2007)

Over the last six years, the State's personal property tax laws and regulations have changed substantially. In 2000, the State Tax Commission updated the general business depreciation tables that are used to calculate personal property taxes, resulting in approximately 10% drop in property tax revenue. In addition, the State Tax Commission also approved new personal property tax tables for utilities which made drastic changes to transmission and distribution property of utilities (resulting in approximately 30% revenue loss to local units of government). Also, the Michigan Supreme Court in WPW Acquisition Co v. City of Troy ruled that the Proposal A cap prevents assessors from increasing the taxable value of commercial rental property above the rate of inflation using the occupancy methodology even when reductions in taxable value were previously granted due to a decrease in occupancy.

Further reductions to personal property tax remain part of the State's tax structure discussions. Personal property taxes are a significant revenue source to many local governments. For the Township, personal property tax represents 4% of its tax base. If the State's new business tax structure provides personal property tax relief, the question is will local governments be held harmless by the State and to what extent? The Governor's tax plan as introduced proposes to change the property tax system to mitigate the impact of the WPW case. A similar attempt to make this correction occurred in 2005 and 2006 with no success.

New Cable Franchise Legislation (Updated March 2007)

The Governor signed cable franchise legislation (House Bill 6456) into law effective January 1, 2007. The new law (Public Act 480 of 2006) creates the "Uniform Video Services Local Franchise Act" which provides a statewide framework for franchising agreements instead of individual community agreements. This Act requires video service providers to obtain a local franchise, good for 10 years, from the franchising entity (the local unit of government). As part of the local franchise, the provider is required to pay an annual video service provider fee, not to exceed 5% of gross revenue, as well as an annual fee for the costs of the PEG access facilities, not to exceed 2% of gross revenue. The Act allows providers to terminate the current franchise contracts before their expiration date, in order to enter into this new local franchise agreement under the statewide framework.

Local units of government will be impacted in the following ways:

Under the Act, no additional fees or charges other than those stipulated under the Act may be written into the local franchise agreements.

To the extent existing cable franchise agreements provided more funding than provided for under the new Act, municipalities will see reduced fees from these new local franchise agreements.

A credit, based on annual maintenance fees paid for use of public rights of way, to video service providers is allowed under the Act. This credit could eliminate or significantly reduce any revenue the local unit might receive under the bills franchise fee.

Audits of the video service providers' calculation of gross revenue is limited to once every two years.

It is expected that local governments will receive their first payment under the new Act beginning in May 2007. We strongly encourage you to review this payment compared to payments previously received and follow up with your provider as required.

Property Tax Legislation (Updated March 2007)

A series of House bills were introduced in 2007 dealing with the treatment of the uncapping of value on sale or transfer of property. With the passage of Proposal A in 1994, changes to the taxable value of an individual property are limited to the lesser of the rate of inflation or 5 percent – until the property is sold or transferred. The difference between the capped taxable value amount and state equalized value at the time of transfer is referred as the "uncapped" value or the "pop-up" value. As several published studies and reports have demonstrated, the treatment of "uncapped" values or the "pop up" amount when a property is transferred or sold as growth on existing property subject to the Headlee rollback calculation has resulted in continued downward pressure on millage rates. This treatment is due to definitional changes made to the General Property Tax Act in 1994.

The three bills in the package are House Bills 4440, 4441, and 4442 and would propose to do the following:

- House Bill 4440 This bill establishes an 18 month moratorium on the “pop-up” or “uncapping” of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the timeframe of the moratorium would continue to pay property taxes at the previous taxable value amount. The “pop-up” or “uncapping” of taxable value would be delayed until the property was sold or transferred in later years.
- House Bill 4441 This bill increases the real estate transfer tax by .10% and earmarks the money to be returned to local government for potential loss in revenue occurring from House Bill 4440.
- House Bill 4442 This bill would change the General Property Tax Act to exempt the “pop-up” or “uncapped” value from the Headlee rollback calculation. If this legislation were enacted, increases in taxable value resulting from property sales or transfers would be treated as “additions” to taxable value or new growth versus growth on existing property.

House Bills 4440 and 4441 passed the House on March 14 (HB 4440 has been assigned to the Senate Finance Committee). House Bill 4442 has not been voted on yet in the House. The bills are not tie barred.

Bonding to Fund Liability for Other Post Employment Benefits (Updated September 2006)

The day quickly approaches for local governments to measure the liability for non-pension benefits granted to government employees at retirement (most notably retiree health care). Once these benefits are measured, local governments will face the tough choice of advance funding these benefits (which some are doing now), remain on a pay-as-you go plan (which is the path for most local governments) or a combination thereof. To provide local governments with additional funding options, legislation was introduced in 2006 which would allow for bonding as a funding tool. The legislation was passed by the Michigan Legislature and vetoed by the Governor. The legislation is likely to be reconsidered in 2007.

Municipal Finance Act Revisions – REMINDER

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day “exemption from prior approval” process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the Township’s year end December 31, 2006 and is good for one year thereafter. The Township should consider the need to file a qualifying statement for each of its component units.

Other Comments and Recommendations-

1. Daily Cash Drawer Reconciliation

During our audit, we were informed by management that during early 2007 difficulties have been encountered in reconciling the cash drawers. While no fraud was noted, the difficulty has been a result of treasury department personnel not closing out and reconciling the cash drawers daily but rather performing the reconciliation with multiple day activity. We understand the Township has already begun to enforce this policy and we commend them for monitoring it more closely.

2. Payroll Register Review

During our audit it was noted during our discussions of payroll procedures that while all copies of the payroll checks (or pay stubs in the case of direct deposits) are provided to the Clerk and Treasurer for their review and signature, a copy of the payroll register is not provided to them as a part of the process. In an effort to further strengthen internal controls, we recommend the Township provide the payroll register to the Clerk and Treasurer for their review when signing payroll checks so that they can assure that all transactions for payroll have been presented to them for review and signature.

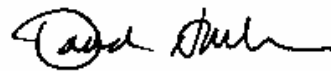
3. General Fund Deficit

The Township built a new township hall facility during 2006. A decision was made to use internal funds (Advance from Sewer and Water Enterprise Funds) rather than seek external financing. The financial accounting results of the advance caused the General Fund to reflect an unreserved fund balance deficit in the amount of \$503,288. We understand that the Township will pay back the advance with interest over a 40 year period. We want to communicate to the Township that a formal plan to eliminate the deficit will need to be prepared and submitted to the Michigan Department of Treasury. We understand that the Supervisor is aware of this requirement and will file the plan with the State.

We would like to thank the Township personnel for the courtesy and assistance extended to us during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Tadd Harburn", written in a cursive style.

Tadd A. Harburn, CPA
Partner